

2010 Investment Office Roadmap

December 2010 Report

1. Risk Management – Janine Guillot

| Objectives | Planned Completion Date | Status | Accomplishments |
|--|-------------------------|--------|--|
| <i>Adopt a risk framework and governance structure</i> | Completed April 2010 | ✓ | <ul style="list-style-type: none"> Establish a Risk Framework and Governance structure with cross-Investment Office representation Presented Risk Framework to Investment Office staff Risk Governance structure approved by CIO, COIO and SIOs |
| <i>Complete a risk assessment of the Total Fund investment processes</i> | Completed Nov 2010 | ✓ | <ul style="list-style-type: none"> Conducted INVO-wide electronic risk survey, compiled results. Completed 23 interviews with key Investment office staff and consolidated information on risk management priorities. Conducted workshop to discuss, vote, and prioritize top risk management concerns. Finalized working Risk Heat Map, Risk Assessment, and Prioritization Summary Report Reported and submitted to INVO Operating Committee on 11/30/2010. |
| <i>Produce a Total Fund exposure dashboard</i> | June 2011 | ● | <ul style="list-style-type: none"> Socialized Risk Dashboard work among asset classes Discussed assumptions and outcomes, confirmed challenges. Reviewed other organizations risk dashboards for best practices. |

Legend:

✓ = complete

▼ = need to watch

● = on target or trending to target

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2. Capital Allocation – Farouki Majeed

| Objective | Planned Completion Date | Status | Accomplishments |
|--|-------------------------|--------|-----------------|
| <i>Build consensus on role of asset classes and risk profile internally</i> | Completed May 2010 | ✓ | Completed |
| <i>Establish allocation framework for annual capital allocation</i> | Completed May 2010 | ✓ | Completed |
| <i>Conduct ALM Workshop in Q4 and recommend Strategic Asset Allocation targets before year end</i> | Completed December 2010 | ✓ | Completed |
| <i>Develop Liquidity Management and Capital Allocation for Private Equity Asset Classes</i> | June 2011 | ● | In progress |

3. Cost Effectiveness / Profit Enhancement – Janine Guillot

| Objective | Planned Completion Date | Status | Accomplishments |
|---|-------------------------|--------|--|
| <i>Improve terms on deals in 2010 in Real Estate, RMARS, AIM, ILAC, and Corporate Governance (Rapid Results Project)</i> | Completed May 2010 | ✓ | <ul style="list-style-type: none"> Achieved \$41M in ongoing cost savings Achieved \$12M in one-time cost savings Deferred \$43M in incentive fees Best practices shared across the asset classes in terms of contract negotiations and alignment of interests Transparency in fees and structures across the asset classes |
| <i>Improve terms on deals in 2010 and institutionalize associated processes going forward (Rapid Results Project)</i> | Completed November 2010 | ✓ | <ul style="list-style-type: none"> Achieved additional \$32M in ongoing cost savings Achieved additional \$2M in one-time cost savings Deferred additional \$12M in incentive fees Outlined the process for tracking fee savings within each asset class Shared methods for calculating cost savings Developed standard format to track savings across asset classes |

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4. Financial Market Reform – Anne Simpson

| Objective | Planned Completion Date | Status | Accomplishments |
|--|-------------------------|--------|---|
| <i>Create a new, diverse pool of talent for boards (Rapid Results Project)</i> | Completed June 2010 | ✓ | <ul style="list-style-type: none"> • Shareowner nomination process agreed upon with United Health • Formed advisory committee (shareowners, diversity groups, companies); • Developed candidate questionnaire • Drafted MOU with CalSTRS to create the Diverse Director Database (3D) |
| <i>Establish a total fund process for developing policy and practice on Environmental, Social, and Governance(ESG)</i> | June 2011 | ● | <ul style="list-style-type: none"> • Developed plan, approved by Internal Strategy Group and Senior Corporate Governance Group • Mercer completed report summarizing ESG implementation and Responsible Investment's Second Decade. |
| <i>Engage legislators and regulators on market stability and shareholder rights</i> | June 2011 | ● | <ul style="list-style-type: none"> • Frank/Dodd Financial Market Reform legislation passed with significant CalPERS input at Congressional and Executive level • Identified 5 priority areas – Corporate Governance, Systemic Risk, Sustainability, Credit Ratings & Securitization, and Derivatives. |
| <i>Develop majority voting standard for director elections</i> | June 2011 | ● | <ul style="list-style-type: none"> • Engaged 58 companies requesting majority vote reform • To date, 22 companies have committed to or officially adopted a majority voting standard. • Staff has filed 2 shareholder proposals. |
| <i>Develop financial sector focus list</i> | June 2011 | ● | <ul style="list-style-type: none"> • Met with board directors with 7 of CalPERS 8 largest financial holdings |

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5. Organization Systems & Controls – Janine Guillot

| Objective | Planned Completion Date | Status | Accomplishments |
|--|-------------------------|--------|---|
| <i>Introduce new investment proposal submission and tracking system (Rapid Results Project)</i> | Completed June 2010 | ✓ | Completed |
| <i>Rationalization of Composite Structure (Rapid Results Project)</i> | Completed Dec 2010 | ✓ | <ul style="list-style-type: none"> • Eliminated 47 composites and 29 dynamic benchmarks • Mapped all remaining composites to a performance hierarchy or incentive compensation hierarchy • Developed control mechanisms for new composite creation and maintenance • Implemented an annual composite review process • Renamed composites according to a standardized naming convention • Restructured Wilshire Quarterly Report |
| <i>Investment Proposal Decision Criteria and Screening Process (Rapid Results Project)</i> | Completed Nov 2010 | ✓ | <ul style="list-style-type: none"> • Developed objective pre-screen criteria for all asset classes • Developed uniform work flow process and associated communication tools • Identified IPTS Steering Committee and User Group |
| <i>Continue to identify inefficiencies / gaps</i> | On-going | ● | <ul style="list-style-type: none"> • In progress • Formed INVO Operating Committee • Finalized the Automated Real Estate Investment System (AREIS) • Developed enhanced contract management database • Initiated comprehensive review and simplification of investment policies • Strengthened technology governance. |

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